

Message Text

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INFO OCT-01 EUR-12 ISO-00 TRSE-00 AID-05 SIG-01 FEA-01

ERDA-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

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TAGS: EFIN

SUBJECT: LDC DEBT AND THE NORTH/SOUTH DIALOGUE

REF: A-2252 CIRCULAR, 4/28/76, STATE 181094 NOTAL

1. THE REFERENCED AIRGRAM PROVIDED THE USG POSITION PAPER ON "DEBT" PREPARED FOR UNCTAD IV. THE FOLLOWING IS AN UP-DATE OF SUBSEQUENT EVENTS ON DEBT, AND IS PROVIDED TO KEEP YOU INFORMED FULLY ON A SUBJECT MATTER WHICH IS LIKELY TO REMAIN A MAJOR ISSUE IN THE NORTH/SOUTH DIALOGUE. THE IMPORTANCE OF THE DEBT ISSUE IS ILLUSTRATED BY THE FACT THAT IT WAS THE PIVOTAL ITEM BEHIND THE DEADLOCK WHICH DEVELOPED AT LAST WEEK'S MEETING OF THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC).

2. A) AT UNCTAD IV THE CREDITOR COUNTRIES SUCCESSFULLY RESISTED GROUP-77 DEMANDS FOR "GENERALIZED" DEBT RELIEF, AND WERE ABLE TO FOCUS ATTENTION ON IMPROVEMENTS IN THE "CASE-BY-CASE" APPROACH. THE LDC'S ALSO DROPPED DEMANDS FOR BOTH A RESCHEDULING OF COMMERCIAL DEBT AND CREDITOR-DEBTOR CONFERENCE. AT THE SAME TIME, THE CREDITOR COUNTRIES REAFFIRMED THEIR WILLINGNESS TO RESPOND POSITIVELY TO COUNTRIES -- PARTICULARLY THE POOREST -- EXPERIENCING SEVERE DEBT PROBLEMS.

B) THE KEY PARAGRAPH OF THE UNCTAD IV RESOLUTION ON DEBT:

"INVITES APPROPRIATE EXISTING INTERNATIONAL FORA TO DETERMINE, BEFORE THE END OF 1976, WHAT FEATURES MIGHT USEFULLY BE DISCERNED FROM PAST OPERATIONS, TOGETHER WITH OTHERS THAT MIGHT BE IDENTIFIED IN THE LIGHT OF THE PRESENT SITUATION OF THE LEAST DEVELOPED COUNTRIES, THE MOST SERIOUSLY AFFECTED DEVELOPING COUNTRIES AND OTHER COUNTRIES IN NEED, WHICH COULD PROVIDE GUIDANCE IN FUTURE OPERATIONS RELATING TO DEBT PROBLEMS AS A BASIS FOR DEALING FLEXIBLY WITH INDIVIDUAL CASES".

C) DURING THE COURSE OF UNCTAD IV, THE MAJOR CREDITOR COUNTRIES REMAINED FIRMLY UNITED IN THEIR OPPOSITION TO GENERALIZED DEBT RELIEF. THERE WAS, HOWEVER, A SIGNIFICANT DIFFERENCE AMONG THE CREDITORS ON THE QUESTION OF DISTINGUISHING BETWEEN DEBT RELIEF AND AID. THE EUROPEAN COMMUNITY, AND SOME OTHER COUNTRIES, WERE PREPARED TO ENDORSE THE USE OF DEBT RELIEF AS A FORM OF AID (IN AN AID CONSORTIUM CONTEXT) FOR POOR LDC'S. THE US, HOWEVER, HAS LEGAL AND CONGRESSIONAL CONSTRAINTS AGAINST USING DEBT RELIEF AS AID.

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3. A) IT HAS BEEN AGREED THAT CIEC WILL BE AN "APPROPRIATE ...FORA" FOR IDENTIFYING THE "FEATURES" CITED IN THE UNCTAD IV RESOLUTION.

B) IN EXAMINING "FEATURES" FOR ACUTE DEBT CRISIS SITUATIONS, THE US INTERPRETS THE UNCTAD RESOLUTION AS CALLING FOR THE IDENTIFICATION OF FEATURES WHICH WOULD PERMIT EFFICIENT AND EQUITABLE TREATMENT OF COUNTRIES WHICH HAVE SECURED CREDITOR COUNTRY AGREEMENT TO ENTER INTO RESCHEDULING NEGOTIATIONS. WE OPPOSE ANY TIE BETWEEN "FEATURES" AND ELIGIBILITY FOR DEBT RELIEF. PAST EXPERIENCE HAS DEMONSTRATED THAT SUCH A LINK WOULD RELY LARGELY ON A "FOREIGN EXCHANGE GAP" APPROACH IN WHICH THERE WOULD BE A PRESUMPTION FOR DEBT RELIEF IF A COUNTRY'S BALANCE OF PAYMENTS ACCOUNTS SHOWED THAT THE ACHIEVEMENT OF CERTAIN GROWTH TARGETS IS INCOMPATIBLE WITH MEETING DEBT SERVICE OBLIGATION. THIS APPROACH POSES SERIOUS PROBLEMS. THE U.S. BELIEVES THAT THERE IS NO GAP PER SE, AND THAT ITS SIZE IS DEPENDENT ON VALUE JUDGMENTS REGARDING THE REALISM OF THE GROWTH TARGET AND THE PERFORMANCE FACTOR (SAVINGS, INVESTMENT, EXPORT GENERATION ETC.) CAPACITY OF THE DEBTOR COUNTRY. MOREOVER, A "GAP" IS A SHORT-TERM INDICATOR WHICH MAY OR MAY NOT BE INDICATIVE OF MORE RELEVANT LONG-TERM PROSPECTS.

C) OUR UNDERLYING OBJECTIVES FOR DEALING WITH LDC DEBT ISSUES IN THE CIEC ARE:
--TO PRESERVE THE CREDITOR CLUB FORUM AND CASE-BY-CASE APPROACH FOR DEALING WITH DEBT EMERGENCY SITUATIONS, AND

-- TO BRING OUT THE NATURE OF OTHER TYPES OF RESCHEDULINGS WHERE DEBT RELIEF IS USED AS A SUBSTITUTE FOR FOREIGN ASSISTANCE.

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WE BELIEVE IT ESSENTIAL TO DRAW A DISTINCTION BETWEEN TWO DIFFERENT TYPES OF DEBT SITUATIONS. THESE ARE:

--THE ACUTE DEBT CRISIS SITUATION AS EXEMPLIFIED BY CHILE AND ZAIRE WHERE CREDITORS ARE CALLED UPON TO REACT TO WHAT IS, IN EFFECT, AN EMERGENCY SITUATION. THIS TYPE OF SITUATION RELATES TO A RESCHEDULING CONDITIONED UPON OR PROCEEDING WITH IMPLEMENTATION OF STABILIZATION MEASURES.

-- BALANCE OF PAYMENTS PROBLEMS ARISING FROM THE DEVELOPMENT PROCESS WHICH INCLUDE A DEBT SERVICE ELEMENT. IN THIS CONTEXT, DEBT RELIEF IS VIEWED AS AN ALTERNATE TO AID FOR THE DEVELOPMENT PROCESS RATHER THAN MEETING DEBT SERVICE EMERGENCIES. DEBT RELIEF IN THIS FORM CAN ONLY INCREASE THE QUALITY AND QUANTITY OF RESOURCE TRANSFER IF IT RESULTS IN IMPROVED QUALITY OR INCREASED VOLUME OVER WHAT OTHERWISE WOULD HAVE OCCURRED.

D) ESTABLISHING THE DISTINCTION BETWEEN THE TWO TYPES OF DEBT PROBLEM WILL GREATLY FACILITATE THE DRAWING UP

OF "FEATURES". WE ENVISIONED THE FINANCIAL AFFAIRS COMMITTEE (FAC) OF CIEC FOCUSING ON THE AVOIDANCE AND TREATMENT OF ACUTE DEBT CRISES, WHILE THE DEVELOPMENT COMMISSION WOULD LOOK AT DEBT RELIEF IN THE AID CONTEXT, I.E., THE TRANSFER OF RESOURCES, IMPROVING THE QUANTITY AND QUALITY OF AID. UNDER SUCH A DIVISION, THE FAC WOULD CONCENTRATE ON DEVELOPMENT OF "FEATURES" WHICH COULD PROVIDE GUIDANCE FOR CREDITOR CLUBS IN FUTURE DEBT REORGANIZATIONS. THE DEVELOPMENT COMMISSION'S ATTENTION WOULD THEN FOCUS ON THE COMPONENTS OF OFFICIAL DEVELOPMENT ASSISTANCE INCLUDING THE USE OF DEBT RELIEF BY SOME COUNTRIES. IN THE CONTEXT OF MAXIMIZING THE EFFICIENCY OF EXTERNAL AID AND PREVENTING DEBT SERVICE DIFFICULTIES, THE DEVELOPMENT COMMISSION WOULD STUDY "FEATURES" WHICH MAY, IF APPROPRIATE BE IDENTIFIED.

4. THE VIEWS OF THE OTHER MAJOR CREDITORS REGARDING THE TREATMENT OF DEBT IN CIEC VERY CLOSELY PARALLEL THOSE OF THE USG AS SET FORTH IN PARAGRAPH 3 ABOVE. THUS IN THE CIEC MEETING OF JULY 12-13 AND JULY LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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15-16 THE MAJOR CREDITORS (PARTICULARLY THE US AND THE EUROPEAN COMMUNITY) WERE ABLE TO ADOPT A COMMON APPROACH

BOTH IN ASSIGNING CIEC THE RESPONSIBILITY OF IMPLEMENTING THE UNCTAD RESOLUTION ON DEBT, AND IN THE DIVISION OF LABOR BETWEEN THE FAC AND THE DEVELOPMENT COMMISSION.

5 A) A JOINT MEETING OF THE FAC AND THE DEVELOPMENT COMMISSION TOOK PLACE ON JULY 16 TO ORGANIZE FUTURE CIEC WORK ON DEBT. AT THIS MEETING THE G-19 AGREED THAT CIEC IS AN APPROPRIATE FORUM FOR DEALING WITH INDEBTEDNESS. THEY FURTHER STATED THAT:

"THERE ARE TWO BASIC ASPECTS OF THIS PROBLEM: IMMEDIATE DEBT RELIEF TO MSA'S, THE LEAST DEVELOPED, DEVELOPING LAND LOCKED AND DEVELOPING ISLAND COUNTRIES, AND THE ESTABLISHMENT OF GUIDELINES FOR DEALING WITH FUTURE DEBT PROBLEMS IN PURSUANCE OF UNCTAD RESOLUTION 94 (IV) OF 5/31/76."

B) THE G-19 LATER AGREED THAT THE FAC SHOULD BE THE BODY TO IMPLEMENT THE UNCTAD RESOLUTION ON FEATURES FOR CASE-BY-CASE DEBT REORGANIZATION. THEY INSISTED, HOWEVER, THAT THE DEVELOPMENT COMMISSION BE DIRECTED TO COME UP WITH PROPOSALS TO ALLEVIATE THE EXISTING "DEBT BURDEN" OF THE MSAS, LEAST DEVELOPED ETC.

C) EXCEPT FOR SWEDEN NO COUNTRY IN THE G-8 WAS WILLING TO COMMIT ITSELF IN ADVANCE TO FORMULATE PROPOSALS

FOR MSA DEBT RELIEF. THERE WAS A WILLINGNESS, AMONG ALL CREDITORS, HOWEVER, TO NEGOTIATE LANGUAGE AND PROCEDURES TO LEAVE THE DOOR OPEN FOR THE G-19 TO RAISE GENERALIZED DEBT RELIEF IN THE DEVELOPMENT COMMISSION WITHOUT PREJUDGING ITS OUTCOME. THIS WAS NOT ACCEPTABLE TO THE G-19, WHO THEN REVERTED BACK TO THEIR ORIGINAL POSITION DESCRIBED IN PARAGRAPH 5(A). THE 19 IN EFFECT ARE MAINTAINING THAT FURTHER WORK IN CIEC ON DEBT IS CONTINGENT ON AN ADVANCE COMMITMENT BY THE G-8 TO EXTEND GENERALIZED DEBT RELIEF TO THE MSAS, LEAST DEVELOPED ETC.

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6. THE G-19 POSITION ON GENERALIZED DEBT RELIEF IS BEING LARGELY DETERMINED BY INDIA AND PAKISTAN, THE TWO COUNTRIES WHO BELIEVE THEY WOULD BENEFIT MOST FROM SUCH PROPOSALS. VERY FEW MSAS, OTHER THAN INDIA AND

PAKISTAN, AND EGYPT, HAVE LARGE ACCUMULATIONS OF DEBT, AND MOST -- PARTICULARLY THE SMALLER -- WOULD RECEIVE ONLY MARGINAL GAIN FROM GENERALIZED DEBT RELIEF. THE INTERESTS OF THE POOREST COUNTRIES ARE CLEARLY BETTER SERVED BY FOCUSING ON IMPROVEMENTS IN THE QUALITY AND QUANTITY OF OVERALL ASSISTANCE, RATHER THAN NARROW FOCUSING ON ONLY DEBT RELIEF. (THE OVERWHELMING IMPORTANCE OF "AID" TO THE POOREST COUNTRIES IS ILLUSTRATED BY THE FACT THAT ANNUAL NET ODA RECEIPTS OF THE LEAST DEVELOPED COUNTRIES IS ABOUT DOLS 1.2 BILLION. EVEN IF THE ENTIRE ODA DEBT SERVICE WAS CANCELLED FOR THESE COUNTRIES, THE INITIAL ANNUAL GAIN WOULD ONLY BE DOLS 85 MILLION.) THERE IS NO INDICATION THAT ANY OTHER G-19 MEMBERS ARE WILLING TO CHALLENGE INDO-PAKISTANI INFLUENCE ON THE MSA/DEBT RELIEF ISSUE EVEN THOUGH INDIA AND PAKISTAN ARE ACTING COMPLETELY IN THEIR OWN SELF-INTEREST ON THIS MATTER.

7. ATTACHMENT A TO REFERENCED AIRGRAM A-2252 LISTS THE REASONS WHY WE OPPOSE GENERALIZED DEBT RELIEF. THE DISADVANTAGES OF GENERALIZED RELIEF INCLUDE:

-- THE DANGEROUS PRECEDENTS FOR THE TRADITIONAL CREDITOR-DEBTOR RELATIONSHIP,

-- THE GAIN WOULD ACCRUE PRIMARILY TO A FEW COUNTRIES, AND MANY -- PARTICULARLY THE POOREST -- WOULD RECEIVE ONLY MARGINAL GAIN,

-- THE WIDE DIVERSITY OF CURRENT DEBT SITUATIONS -- EVEN AMONG THE MSAS -- CALL FOR DIFFERENT TYPES OF REMEDIAL ACTION THUS JUSTIFYING THE "CASE-BY-CASE"

APPROACH,

-- THE CURRENT MSA PROBLEM IS AN "AID" PROBLEM RATHER
THAN A "DEBT" PROBLEM AND SHOULD BE ADDRESSED IN THE
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AID CONTEXT. ADDRESSING IT IN A DEBT CONTEXT PENAL-
IZES THOSE DONORS WHO HAVE BEEN MOST GENEROUS IN THE
PAST,

-- IT WOULD NEITHER REWARD COUNTRIES UNDERTAKING
SOUND ECONOMIC POLICIES, NOR DISCOURAGE THE PRACTICE
OF UNSOUND POLICIES.

8. POSTS OF CIEC PARTICIPANTS SHOULD DRAW FROM THE
ABOVE AND DISCUSS DEBT/CIEC ISSUES WITH APPROPRIATE
HOST GOVERNMENT OFFICIALS. IN DOING SO, POSTS SHOULD
NOTE IN PARTICULAR CONTINUED USG OPPOSITION TO
GENERALIZED DEBT RELIEF, MORATORIA AND THE LIKE. WE

WOULD OF COURSE BE AGREEABLE TO LANGUAGE WHICH ALLOWS
G-19 TO RAISE SUBJECT BUT SUCH LANGUAGE FOR CIEC
WORK PROGRAM MUST BE NEUTRAL SO AS NOT TO PRESUME
OUTCOME IN FAVOR OF SUCH RELIEF. WE WOULD APPRECIATE
BEING KEPT ADVISED OF HOST GOVERNMENT VIEWS ON ISSUE.
ROBINSON

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